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RUEHBJ/AMEMBASSY BEIJING PRIORITY 3425
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RUEHKO/AMEMBASSY TOKYO PRIORITY 8678
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RUCPDO/DEPT OF COMMERCE WASHINGTON DC PRIORITY
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STATE FOR EAP/MLS AND EB
COMMERCE FOR EAP/MAC/OKSA
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STATE PASS TO FEDERAL RESERVE SAN FRANCISCO FOR DAN FINEMAN
STATE PASS FEDERAL RESERVE NEW YORK FOR MATT HILDEBRANDT

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SUBJECT: BANGKOK BOMBS AND THE THAI ECONOMY

11. (SBU) The series of bomb explosions in Bangkok on New Year's Eve occurred at the height of Thailand's tourism season. Tourism is an important component of the Thai economy, contributing more than 6 percent to GDP. Since 2001, Thailand's tourism industry has faced the effects of 9/11, SARS, avian influenza, terrorism in the south and especially the tsunami and has bounced back strongly each time. Major travel agencies here tell us that cancellations have increased to about 10 percent of bookings from a normal rate of 2 percent with most of the cancellations coming from the US and Europe. This includes visitors who were not scheduled to stay in Bangkok. Some bookings have been adjusted to cancel stays in Bangkok while maintaining the remainder of a Thai trip. US and other foreign air carriers report no increase in cancelled bookings at this point although they (like the Thai Tourism Association) expect typically skittish Japanese tourism to fall off quickly. They have also seen some increase in travelers already in Thailand moving up their departure dates. Almost every observer with whom we spoke indicated that with the holiday season just ending, the next few days will be their real indication of global traveler reaction.

12. (SBU) Some analysts are concerned that by attacking crowded areas, including a shopping mall, the bombs could further reduce domestic consumption and consumer confidence in general. With most private investment over the past year focused on new retail buildings and tourism infrastructure, there could also be a further slowing of private investment. The Stock Exchange of Thailand index declined 3.3 percent on January 3, its first day of trading since the explosions. The baht, on the other hand, was slightly stronger against the US\$ than before the bombing, going from about 35.85/\$ on December 29 to 35.8/\$ on January 3. This was on very light volume and with exporter dollar selling the primary activity. Most believe that the baht will weaken again as foreign portfolio investors begin to repatriate the proceeds from equity sales made in the wake of the December 19 capital control regulations.

13. (SBU) RSO and ACS Chief held a briefing for American Chamber of Commerce members. Despite the meeting not be announced until mid-morning, the 3:00 meeting was exceptionally well-attended. The mood was one of

disappointment more than concern with one executive saying privately that it is getting ever more difficult to explain to his head office why any additional investment should be directed towards Thailand.

14. (SBU) Comment: Since 1997, the Thai economy has weathered previous disasters without much distress. The difference this time is that with the recent capital control regulations and expected changes to laws regulating foreign investment, international investors may be more reluctant to devote capital to Thailand than at any time since the crisis. While we expect tourism to quickly recover from any short-term decline from the bombings, this sector too would be in jeopardy if additional attacks occur over the next few months.

BOYCE